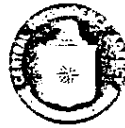


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Washington, D.C. 20505

DDI- 0-6/36/85/1

20 DEC 1985

Dr. Ivan Selin
Chairman
American Management Systems, Inc.
1777 North Kent Street
Arlington, VA 22209

Dear Ivan:

I read your letter on the fall meeting of the Military-Economic Advisory Panel with much interest. As you note in your reports on the last two MEAP sessions, we are making headway on some of the unresolved issues in both the defense costing and the defense industry areas.

Your recommendations for further research strike me as very useful. Many of them have to do with narrowing CIA/DIA differences on military-economic estimates. We intend to pursue this work vigorously, although not in quite the same way that you propose. As my letter to General Perroots indicates, we would like to use an existing interagency group as the focus for analysis of Soviet procurement of military hardware. We will also revisit the paper that DIA issued a few years ago to see whether more can be said about differences between CIA and DIA estimates of total Soviet defense spending in rubles.

I agree that the SOVA research on Soviet R&D spending and force projections represents a significant departure from the way these estimates were made in the past. We are therefore--as you suggest--reviewing the analysis, briefing the preliminary results within the Community, and asking for comments on the findings. We plan to distribute papers on these topics prior to our JEC testimony in March.

I also agree that the overview paper on the Soviet weapons industry is a candidate for unclassified publication. In my letter to you last June I said that we were prepared to publish non-controversial research on the Soviet and Chinese economies. We will review the sources and findings of the weapons industry paper in this light.

In your report you again express reservations about our work on expanded comparisons of US and Soviet programs related to national security. We will of course consider carefully the detailed comments that you are preparing. But as I said last June, I believe that it is legitimate to show how our traditional comparisons might change if additional activities that enhance national security are included on both sides.

B-232

Finally, I certainly recognize the importance of looking for early indicators of changes in military-economic activity. Much of our current analysis of Soviet economic plans is directed at this question. I understand that your Panel concluded that Gorbachev has embarked on a high-risk strategy with respect to his modernization program, and possibly with respect to his support from both civilian and military leaders. We will therefore--as you suggest--be searching for indicators of the success or failure of Gorbachev's programs. Indeed, I will ask that this topic be included on the agenda of a conference we are sponsoring this spring on the February Party Congress.

In closing, let me again thank you and your colleagues for the contribution they are making to our analysis. I believe that you now have a blend of experience, talent, and enthusiasm that will serve us well in the future.

Sincerely,

/s/ William J. Casey

William J. Casey
Director of Central Intelligence

SUBJECT: DCI's Letter to Ivan Selin

Distribution:

Orig - Addressee

- 1 - DCI
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SOVA/DEIG: (12 Dec 85)

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TO: Executive Registry

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REMARKS:

FROM: SOVA/DEIG

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REPLACES FORM 36-8
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(47)

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DDI- 26-136/85

13 December 1985

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

VIA: Deputy Director for Intelligence

FROM: Douglas J. MacEachin
Director of Soviet Analysis

SUBJECT: Transmittal of Letters to Ivan Selin and
Leonard Perroots

1. As you requested, we have prepared the attached letters to Ivan Selin and General Perroots for your signature. In the draft letter to Mr. Selin we propose that you say that you share his interest in having more work done on reconciling CIA and DIA military spending estimates but that you intend to pursue that end through a somewhat different approach. We would like to continue work that is already underway in an existing CIA/DIA committee. In this committee, we have been reviewing our respective methodologies and have commissioned projects for this winter and spring. Our proposed approach is outlined in some detail in the draft letter from you to General Perroots.

2. The letter to Mr. Selin also reasserts your intention to deal with alternative definitions of national security outlays in our forthcoming papers on comparisons of US and Soviet defense programs (in dollars) and trends in Soviet military spending (in rubles).

3. If you have questions about these letters, I could perhaps discuss them with you at our Monday meeting.

Douglas J. MacEachin

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EXECUTIVE SECRETARIAT
ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X		
2	DDCI		X		
3	EXDIR				
4	D/ICS				
5	DDI	X			
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/OLL				
14	D/PAO				
15	D/PERS				
16	VC/NIC				
17	D/SOVA		X		
18					
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22					

SUSPENSE 16 DEC 85
Date

Remarks

TO #5: Please prepare a response for DCI signature.

ER

Executive Secretary

4 DEC 85

Date

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85-1533/2

American Management Systems, Inc.

Ivan Selin
Chairman

November 26, 1985

The Honorable
William Casey
Director
Central Intelligence Agency
Washington, D.C. 20505

Dear Bill:

Your Military Economics Advisory Panel recently concluded its fall meeting, which was probably the best that we have ever had. Substantively, significant progress has been made on a number of thorny problems with which we have been wrestling for some time. I'm pleased to tell you that the SOVA staff also did an excellent job in coordinating the work of the two days. The administrative people were able to clear Ed Hewett in very short time, so that he could take part in the meeting. It is already clear that he and Steve Meyer are very strong additions to the Panel.

Important steps forward were taken in three areas that we have discussed with you before -- CIA/DIA work, the estimate of Soviet spending for R&D, and the projection of Soviet procurement expenditures related to force projections.

CIA/DIA Work. In my last letter to you I wrote at some length of the differences between the two agencies on military economic estimates. CIA and DIA use different approaches to estimating Soviet ruble defense outlays which are difficult to reconcile and have not been adequately explained. Although the general methodology of dollar pricing is similar in the two agencies, there are important differences in particulars. Finally, there have been major divergences in estimates of the order-of-battle and production in physical units. The result has been confusion and intelligence community disarray in the eyes of consumers and of the public generally.

On this latter point, we received a remarkable report on the progress of the joint working group on Soviet defense production, in preparation for the Interagency Intelligence Memorandum on that subject. It is clear that each agency, and the Community as a whole, have greatly benefited from the process in the form of better substantiated production estimates for a number of military procurement items. In particular, this work has shown that there are areas in which CIA can learn from DIA, as well as the converse.

The working group's chairman attributed the progress in large part to the guidance -- the two agencies were told to document their work and

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explain their differences, not to paper them over. He also attributed a great increase in reasonableness to the fact that each analyst had to justify his data, his analysis and his conclusions to his peers.

But there is no progress to report in the more fundamental area of ruble estimates. In May we recommended two steps intended to document DIA's methodology, to allow CIA and DIA to try to reconcile their differences and, above all, to keep both agencies fully informed of changes in methodology and analysis their staffs might undertake. One involved unilateral DIA effort, the second called for a specific CIA/DIA joint project. Your response to our letter suggested an approach to pursuing the joint work, but this suggestion has not resulted in the joint work being pursued. Since the objective is so important, we have decided to take another tack.

We recommend that you and the Director of DIA pursue a joint CIA/DIA project, modeled after the joint working group on defense production. The project would document, reproduce, and eventually reconcile the CIA and DIA ruble estimates of Soviet military expenditures. The two agencies need not agree, but they should be able to highlight their differences and measure the effects of each.

Eventually we would like to extend the group's charter to examine DIA's interesting methodology for determining employment in a number of important defense industry ministries, with an eye to building such employment estimates into CIA estimates of defense production.

Estimates of Research and Development. Over the past 10 years -- particularly in the working group report in July, 1983 and the MEAP's subsequent letters this panel has repeatedly emphasized the fundamental weaknesses in the CIA's analysis of Soviet R&D expenditures. In response, SOVA has developed a completely new methodology, has built a new data base, and has produced preliminary estimates of Soviet R&D. We were pleased to see how far the new methodology has been realized. The new methodology is much more defensible and useful than the old one; its virtue is that it builds on hard intelligence information on the Soviet military R&D establishment. Its introduction is a tribute to CIA's willingness to accept constructive criticism and to continuously improve its work.

The preliminary results must still be completed and thoroughly checked. Provisional though they are, the revisions do seem significant. We await the next version of these R&D estimates with great interest.

Reconciling Force and Resource Projections. In June of 1984 I wrote to you concerning the anomalous situation in which each force analyst projected sharp growth in his individual area, leading to an overall growth projection at an implausibly sharp rate. The problem was to figure out a way to bring overall considerations -- after all, changes in total resource allocations do not occur that abruptly -- into the force projection process.

Here too we can report significant progress. The first step was to get the analysts to present a range of force projections, including an earliest and a latest date for introduction of new systems. Results were immediate -- the analysts had been tending to use the earliest projection as their best estimate, clearly a mistake.

The second step was to combine the individual force projections as probabilities, in order to obtain a range of resource projections. When this step was carried out, it turned out that the most likely resource projections fell into a supportable range.

We note two positive aspects of this analysis:

- (1) The use of a range of individual force projections instead of a single projection, thus improving the projection process;
- (2) The beginning which has been made in combining the individual **force** projections, and in reconciling them with the **resource** projections.

I would also like to return to three topics that we have discussed in the past, namely burden estimates, publication policy, and monitoring of indicators of change.

Burden Estimates. We were shown working papers on the supplemental measures of burden of national security, ranging from civil defense to foreign economic assistance. We were relieved to see that these topics were relegated to the status of supplements, rather than components of the basic time series on US and Soviet expenditures.

Nevertheless we had serious reservations about the approach to broadening the defense concept. We will make detailed comments available to SOVA.

Moreover, in addition to professional considerations that argue against publishing that work, there is a practical consideration as well. Recently US defense spending has increased more rapidly than Soviet spending; in comparative terms the activity levels of the two countries are roughly equal; and recent analyses will revise downward the estimates of the dollar cost of Soviet defense programs of the last decade. It does seem to us that the introduction of these new supplemental measures at this time could be interpreted as a diversion, which would damage CIA credibility.

Publications. Since May of 1984 we have been following the so-called "Omni" paper, "The Soviet Weapons Industry: An Overview", describing the Soviet defense industry in generalist terms. We think that the final paper turned out very well. If it were declassified, it would also be a perfect example of the type of publication that we have been advising you to make available to the public. It deals with background

factual information rather than policy information; it is retrospective, not predictive; it is of interest to a community of scholars whose participation and support can help the agency; and it is a very good paper.

On a related topic, we welcome the steps that the DDI has taken to bring outsiders into the review process through his Military Advisory Panel. Inviting such excellent observers to read and comment on key papers before publication should prove a useful step in keeping the CIA open to and aware of outside opinions.

New Directions and Indicators of Change. In December of 1984 I wrote to you about the need to emphasize early indicators of change in military-economic activity, in situations in which we might expect significant shifts in Soviet performance or behavior. We received several briefings on the Gorbachev economic program, and believe that the advice on indicators is relevant here.

Gorbachev is trying to make changes which have a high probability of not succeeding, and the outcomes of which will be very significant. Of course, CIA should analyze the obstacles he must overcome and assess his chances of succeeding, but you can do much more. CIA should also identify in advance what to look for in the way of indicators of his success or failure in these efforts, as a guide to collection as well as to further analysis.

CIA has had a successful experience with this approach, in the paper by [] "The Development of Soviet Military Power Trends Since 1965 and Prospects for the 1980s" of April 1981.

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As you can see from the frequent citations of past correspondence in this letter, we feel that this MEAP session was very successful in following up on a large number of issues that we have raised with you and with the CIA in the past. Not all recommendations have been responded to, and not all the responses have been completed, but all in all we are very pleased with the degree of follow up and responsiveness.

These results give us good reason to look forward to our next meeting in May, and to the steps that we and SOVA have agreed to do in the interim.

Sincerely,



Enclosure

D R A F T

Lieutenant General Leonard H. Perroots, USAF
Director
Defense Intelligence Agency
Department of Defense
Washington, DC 20301

Dear Len:

My Military Economic Advisory Panel has recently reported to me on its fall meetings. In its report, the Panel recommended that CIA and DIA work jointly on reviewing their estimates of machinebuilding output and Soviet military expenditures.

I believe that a joint effort by the two Agencies could advance their research and narrow their differences in these two areas. We do need to examine and understand the differences in their respective assessments on the growth of Soviet military and civilian machinery output. CIA and DIA now use very different approaches, with conflicting results. Each organization should carefully review the other's work and discuss the differences at the working level. Perhaps it would be useful to produce a joint paper on the results of this work. In any event, the joint effort could be presented to a future meeting of the Military Economic Advisory Panel.

The second joint effort would involve narrowing the differences between the CIA and DIA estimates of the dollar costs of Soviet military procurement. As you know, over the past few years there have been significant differences in the way the two Agencies have portrayed trends in Soviet military procurement during the most recent year or two. They made some progress last spring in understanding the reasons underlying these differences. Meanwhile, an interagency project currently underway is likely to narrow the gap in our respective production estimates. Any remaining differences in their estimates of procurement are probably attributable to the methodologies they each use. I believe we should continue this work with a view toward reconciling our respective approaches and producing estimates that are consistent with one another.

Both of these efforts could be pursued within the framework of the Soviet Military Economic Review Group, an interagency group that was established with the charter to coordinate our military-economic work. I intend to ask our SOVA managers to work along the lines I have described, and I urge you to have your people in DB-4 do the same.

Sincerely,

William J. Casey
Director of Central Intelligence